EUROPEAN CENTRAL BANK

EUROSYSTEM

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Summary of the Non-Financial Business Sector Dialogue on 14 May 2025 via videoconference

Participants

- Members of the Governing Council of the ECB or their alternates
- Representatives of Acerinox S.A, Andritz AG, Aena S.M.E. S.A.Brenntag SE, Beiersdorf AG, Benetton Group, Ceconomy AG, CMA CGM, Condor Flugdienst GmbH, Dataiku, Doka GmbH, ebm-papst Mulfingen GmbH & Co. KGaA & Co. KG, Engel & Völkers Holding GmbH, Etex, Euronics GEIE, Euro Disney Associés S.A.S, Eutelsat Group, Festo SE & Co. KG, Grimaldi Group, Gruppo PAM S.p.A, Klöckner & Co SE, Leonardo S.p.A, Logwin AG, MSC Mediterranean Shipping Co.S.A, Mercedes-Benz Group AG, Miele & Cie. KG, Moeve, NXP Semiconductors, Pandora A/S, Randstad Group, Repsol S.A , RIU Hotels & Resorts, Rohde & Schwarz GmbH & Co. KG, Ryanair Group, Salzgitter AG, Transavia Airlines C.V., Volkswagen Group, Vonovia SE.
- Senior ECB officials from the Directorate General Economics, Directorate General Monetary Policy, Directorate General Communications and Directorate General Secretariat, as well as from the Counsel to the Executive Board, and the ECB's Chief Compliance and Governance Officer

The ECB President welcomed the representatives of the participating companies and recalled the nature of the Non-Financial Business Sector Dialogue, saying it was a forum that enabled the ECB and non-financial companies to interact at the highest level. The objective of the dialogue was to give the ECB an insight into the view of the non-financial business sector on the economic situation and thereby deepen its understanding of economic developments and issues relevant to policymakers. In line with established practice, the agenda, list of participating companies and summary minutes would be published on the ECB's website.

In accordance with the agenda, discussion was focused on the implications of escalating geopolitical tensions and trade tariffs for the euro area economy. This included the effects on euro area external trade, finance and business investment, consumer confidence and spending, and prices, as well as spillovers from higher defence spending to the broader economy.

The discussion was preceded by a short presentation by Philip Lane. He recalled that the ECB's latest contacts with non-financial companies, in March, had preceded the United States' 2 April tariff announcements and there had been relative optimism about announced increases in future defence and infrastructure spending. Since then, however, there had been many changes to the United States' tariff rates and a resulting significant rise in related tariff uncertainty. Data since pointed to some decline in consumer confidence (and rising business and consumer uncertainty) in the euro area, albeit not yet to the extent that followed Russia's invasion of Ukraine. Meanwhile, the feedback from companies in the context of an ongoing ECB investment survey pointed to geo-political and trade uncertainty being among the main factors holding back investment in the euro area, especially for manufacturing firms).

In the ensuing discussion, starting with global trade, it was observed that global shipping activity had been strong in the first quarter of 2025, as many exporters sought to build inventory in the United States ahead of anticipated tariffs. Then, following the announcements on and shortly after 2 April, orders for shipping from China to the United States had fallen by around a half. Now, following the latest agreement between the United States and China to temporarily reduce tariffs, there was a renewed surge in orders as exporters sought to make up for lost activity during April and the first half of May. June was therefore likely to be a very busy month for global shipping. The desire of US importers to build inventory in the United States when tariffs were lowered more recently showed no signs of abating and this was supporting exports in the short-term. The outlook for the second half of the year was, by contrast, very uncertain. Overall, global trade remained resilient so far, with trade flows and the organisation of shipping routes adjusting quickly to tariff announcements. This included a redirection of trade flows resulting in significantly higher growth of imports to the EU from Far East Asia.

Turning to investment, participants widely reported that the current environment of uncertainty was causing investment decisions to be put on hold. Many firms were presently struggling to make reliable forecasts of future returns. They therefore delayed capital expenditure and preserved cash. This was especially the case in the United States but also in Europe. This would hurt economic growth in the medium term. As to the possible implications of higher tariffs for relocation of production, participants generally saw the current environment as accelerating an already long existing trend towards more "local-for-local" production.

Consumer confidence and spending was said to be relatively resilient so far in the euro area, while faltering in the United States. It was noted how transatlantic air travel had fallen sharply in both directions, with travel from the United States to Europe suffering from the weak US dollar, while travel from Europe to the United States seemed to suffer from reported fears of potential problems at US immigration. By contrast, intra-European travel seemed to be holding up, and early indications were that 2025 would be another good year for the tourism industry.

Plans by European governments, and in particular Germany, to increase defence spending, were broadly welcomed. At the same time, there were concerns that the opportunities this presented could be missed as a consequence of the EU defence market being too fragmented (raising certification costs) and regulatory obstacles causing investment delays. That said, many European banks (including the European Investment Bank) had removed restrictions on financing military expenditure, and universities and start-ups were adapting and increasing their related activities. Some participants pointed to the importance of supporting dual purpose civilian-military investments (e.g. through public private partnerships) and facilitating the rapid transfer of highly skilled-labour from other industries.

With regard to prices, the aforementioned increase in the flow of goods from Far East Asia to Europe was putting renewed downward pressure on prices in many industries, such as chemicals, steel and consumer electronics. In this respect, several participants expressed concern about the “dumping” of products on the European market. By contrast, in industries with complex global supply chains there were fears that the financial pressure faced by suppliers would result in higher input costs. Discussions about “escalation clauses” were already becoming more prominent in price negotiations. For exporters to the United States, higher tariffs would have to be passed through to prices, as it was not possible to absorb such increases in margins. However, the build-up of inventory in the United States created some time to prepare US consumers for price increases before they would have to be implemented.

The challenging environment facing many European firms, with higher tariffs on exports to the United States and increasing import competition from Asia, was seen as reinforcing the urgency for policy action to increase the competitiveness of European firms by reducing energy, labour and regulatory costs, and complete remaining elements of the single market (in particular the Capital Markets Union). In this regard, the prescriptions of the Draghi Report were widely perceived as being the right ones. However, there were still questions about the political will – and even more so the administrative drive – to deliver. Acting fast was seen as critical: with the global economy changing in “days”, the EU did not have “years” to react.